

Statement of the
National Pork Producers Council
before the
USDA Public Forum on Captive Supplies in the Livestock
Industry

The National Pork Producers Council (NPPC), which represents the majority of producers of hogs and pigs in the United States, is pleased to submit these comments regarding the topic of this Forum. While this Forum was intended to address concerns in the beef industry (particularly the Western Organization of Resource Councils (WORC) petition), USDA decision-makers need to recognize similar issues exist in the pork industry. Furthermore, USDA must fully respect the differences that exist between these industries and how a "one size fits all" policy response may not be optimal. Therefore, as information NPPC respectfully submits this summary and copies of four prior testimonies and presentations that address this issue for the record.

NPPC's Position and Prior Requests

The attached documents reflect NPPC's public policy positions on hog marketing topics since 1996. Some highlights of them are:

- Requesting USDA investigation/research regarding the price differences which exist in the hog market and the size of difference which may be justifiable;
- Requesting research about the extent and nature of vertical integration, captive supplies, formula pricing, etc. in the pork industry and their effect on price discovery and price determination;
- Highlighting the need for more transparency regarding the requirements for producers to qualify for marketing contracts;
- Urging the federal government to assure full opportunity for producers to form and operate marketing or processing cooperatives without discrimination from packers;
- Asking USDA to foster more transparency and oversight of carcass measurement and pricing systems;
- Requesting a clarification of GIPSA's and the Department of Justice's (DOJ) authority and responsibilities under the Packers and Stockyards Act and various anti-trust laws;

- Working to get additional resources for GIPSA to use in addressing the growing list of more and more complex challenges;
- Proposing that Congress fund a competitive grant and research fellowship program in industrial organization and antitrust economics to develop new economic theory and research methods;
- Requesting that GIPSA conduct a comprehensive research project regarding the pork industry much like the far-reaching beef industry project published in 1996;
- Recognizing a packer's right to own hog production. An industry task force came to this conclusion after considering the wide variety of impacts on contracting, risk management, capital availability, etc.

While some of these topics have been addressed but, in our opinion, none of them have been addressed satisfactorily to date.

In the absence of USDA action, NPPC has taken action on several topics. Our goal has been to increase producers' knowledge so that they can enter negotiations with greater power and thereby enhance their ability to make knowledge-based decisions for their future. Our actions have included:

- Pork industry structure and marketing method studies. NPPC has co-sponsored the triennial studies of pork industry structure by the University of Missouri and Iowa State University. These have laid an important baseline of industry change. In addition, NPPC and the University of Missouri has conducted hog marketing studies during January of the last two years to measure the number of hogs sold under various contract arrangements. Another study is being planned.
- NPPC Guides to Contracting: Production and Marketing. These comprehensive guides have helped contractors, growers, and independent producers make knowledgeable decisions. They are available to all producers by contacting NPPC at 1-800/456-7675.
- Initiation of efforts which resulted in Pork America. NPPC facilitated the effort to form a national, producer-owned marketing cooperative, which is currently questioned.
- Established and continue to maintain producer committees to evaluate the impact of a proposed ban on packer ownership of hogs and the status and potential remedies to the price discovery process.
- An ongoing research project to accurately measure the operating parameters and costs of packing and processing plants of various types and sizes. Such knowledge will help producers who want to invest in downstream value-adding activities and can serve as a decision model for identifying unjustifiable price differences.
- Instituted a voluntary price reporting initiative which continues to be updated on NPPC's website daily, - unfortunately, only Farmland Foods has participated.

- Conducted ongoing research and published actual buying grids used by all major packers so that producers can better match their production with a specific packers marketing grid.

Current Requests

The delegates to the 2000 National Pork Industry Forum passed resolutions that strengthened and clarified NPPC's position on several of the items mentioned above. They are part of our April 27 testimony before the Senate Committee on Agriculture, Nutrition and Forestry and are also shown below.

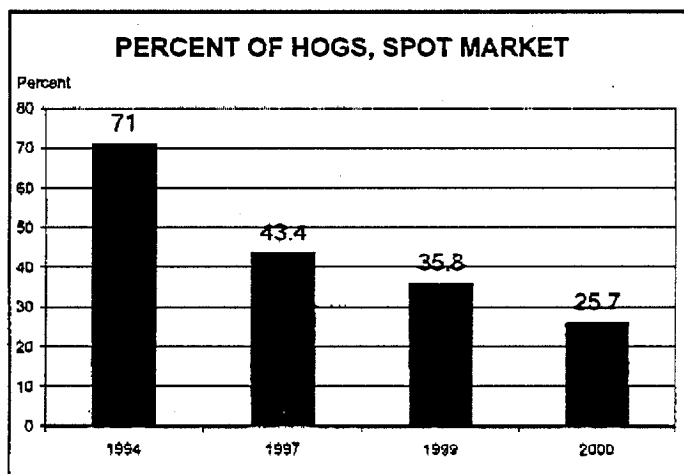
1. USDA Hog Market Structure & Competitiveness Study -- The Department of Agriculture should conduct studies on hog market structure and competitiveness issues within the pork industry, outlining present realities, future scenarios and the implications for producers' economic wellbeing and our nation's food supply.
2. Price Discrimination -- The definition of price discrimination should be clarified, a prohibition on price discrimination should be established, and the Secretary of Agriculture's authority to challenge price discrimination should be reiterated.
3. USDA Study of Justifiable Price Differentials -- The Department of Agriculture should study the factors that comprise economically justifiable price differentials, including factors such as volume, time of delivery, carcass specifications, etc.
4. Study of DOJ Concentration Threshold Levels -- A study should be conducted of the threshold levels of standard concentration measures (Herfindahl-Hirshman Index, Concentration Ratios, etc.) which are used by the Department of Justice to trigger scrutiny or investigation of the livestock and livestock slaughter sectors. We believe the study should focus on the current threshold levels, why they are used and whether they are applicable to a highly perishable product such as livestock.
5. Adherence to Antitrust Laws -- Continued scrutiny of the packing and processing industry on the national level to assure adherence to relevant federal antitrust laws.
6. New Antitrust Laws -- New antitrust laws should be considered that ensure opportunities for independent hog producers.
7. USDA Merger & Acquisition Reviews -- The Department of Agriculture should be given new authority to recommend to the Department of Justice approval or disapproval of agricultural mergers, acquisitions and

consolidation of agricultural input suppliers and processors and sufficient funding to properly discharge these activities.

8. USDA Corporate Structure Report -- The Department of Agriculture should be given new authority to require agribusinesses with more than \$100 million in sales to annually file information related to corporate structure, strategic alliances, joint ventures and the like. The Department would publish a corporate structure report based upon these data.
9. Deputy Attorney General for Agriculture -- A Deputy Attorney General for Agriculture position should be created at the Department of Justice.
10. Packers and Stockyards Act Enforcement -- Press for aggressive enforcement of the Packers and Stockyards Act prohibition of discriminatory practices under current authority.
11. Packer Ownership -- Pork producers recognize a packer's right to own swine and oppose any current legislation that restricts or limits alliances, cooperatives, ownership or joint ventures. Producers also oppose any legislation that differentiates the pork industry from other protein species with regard to alliances, cooperatives, ownership or joint ventures.
12. Producer Bargaining Rights -- Endorse the concept of new legislation that requires processors to bargain with producer cooperatives.

A Final Note on Captive Supply

The pork industry has seen rapid growth in the amount of captive, contracted and other marketing arrangements as can be seen in the graphs summarizing research findings at the University of Missouri and Iowa State University. Nearly three quarters of the hogs purchased in January 2000 were "captive" in some way, being committed to packers and priced in some fashion other than open negotiation.



The importance of contracts for system coordination and effective risk management -- particularly for producers -- should not be overlooked in USDA's deliberations on this topic.

Thank you for the opportunity to comment on this important issue.

Percent of U.S. Hogs Sold through Various Pricing Methods, 1997-2000

